



Government of
Saskatchewan

Annual Report 2002-2003

**Agricultural Credit
Corporation of
Saskatchewan**

Saskatchewan

Our Future is Wide Open

Letter of Transmittal



Regina, Saskatchewan
June 6, 2003

To Her Honour
The Honourable Lynda Haverstock
Lieutenant Governor of the Province of Saskatchewan

Madam:

I have the honour to present the Annual Report of the Agricultural Credit Corporation of Saskatchewan for the fiscal year ended March 31, 2003.

Respectfully submitted,

A handwritten signature in cursive script that reads "Clay Serby".

Clay Serby
Deputy Premier
Minister of Agriculture, Food and Rural Revitalization
Minister Responsible for the Agricultural Credit Corporation of Saskatchewan

Year in Review

During the fiscal year 2002-2003, the wind down of the Agricultural Credit Corporation of Saskatchewan's (ACS) loan portfolio continued in a timely and efficient manner with ACS achieving many of the targets set in the previous year's planning sessions.

The ACS loan portfolio was reduced from \$71.8 million to \$57.6 million while the number of loans decreased from 3,248 to 2,615. At year-end, the delinquent portion of the total loan portfolio had been reduced to \$9.3 million.

The Livestock Drought Loan Program was introduced in August 2002 to assist livestock producers to access funds to assist in maintaining their breeding herds. Loans were disbursed through banks and credit unions with ACS providing a guarantee on \$11.5 million in financing to 2,277 producers.

Another development in 2002-2003 was the transfer of the Agri-Food Equity Fund (AFEFF) from Saskatchewan Agriculture, Food and Rural Revitalization (SAFRR) to ACS.

ACS continues to work diligently and sensitively with customers. We have made good, steady progress on the loan portfolio wind down while maintaining a high level of customer service and are continually striving to meet and exceed the Corporation's goals.

Management's Responsibility for the Annual Report

The Agricultural Credit Corporation of Saskatchewan's (ACS) management is responsible for the preparation, integrity and fair presentation of the financial statements and other information in the Annual Report. The financial statements have been prepared in accordance with generally accepted accounting principles. Where estimates are used, they are based on management's best judgement. Financial and operating information provided elsewhere in the Annual Report is consistent with that contained in the financial statements.

ACS maintains systems of internal accounting and administrative controls designed to provide reasonable assurance that the financial information is accurate and reliable and that corporate assets are adequately accounted for and safeguarded. The Board of Directors oversees the systems of internal accounting and administrative controls. Management and the Corporation's external auditors met periodically throughout the year to review their respective responsibilities and to discuss audit plans, the results of reviews of internal accounting controls, policies and procedures and the financial statements and notes thereto.

The Board of Directors has approved the financial statements and the other information in this Annual Report. In addition, the financial statements have been audited by Meyers Norris Penny LLP whose report follows.



Joe Rakochy
Manager



David Boehm
Director

Financial Programs Branch
Saskatchewan Agriculture, Food and
Rural Revitalization

Swift Current, Saskatchewan
June 6, 2003

Auditors' Report

To the Members of the Legislative Assembly Province of Saskatchewan:

We have audited the balance sheet of Agricultural Credit Corporation of Saskatchewan as at March 31, 2003, and the statements of operations and surplus and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 2003, and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

The financial statements as at and for the year ended March 31, 2002, were audited by other auditors who expressed an opinion without reservation on these statements in their report dated April 17, 2002.

Regina, Saskatchewan

April 17, 2003

Meyers Norris Penny LLP
Chartered Accountants

Agricultural Credit Corporation of Saskatchewan

Balance Sheet

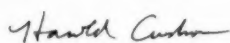
As at March 31, 2003

(in thousands of dollars)

	2003	2002
Assets		
Cash and short term investments	3,465	191
Accounts receivable	64	17
Loans receivable (Note 4 and 5)	37,005	44,533
Assets held for resale (Note 7)	6,052	7,174
Investments (Note 6)	8,935	-
	55,521	51,915
Liabilities		
Interest and other accrued payables	988	1,502
Provision for loss on Livestock Drought Loan Program (Note 10)	1,800	-
Unexpended grants repayable (Schedule 1)	-	423
Notes payable (Note 8)	10,100	5,400
Long-term debt (Note 8)	23,767	33,951
	36,655	41,276
Equity		
Accumulated surplus	18,866	10,639
	55,521	51,915

Contingencies and commitments (Note 10)

Approved on behalf of the board



Harold Cushon
Director



Gord Nystuen
Director

The accompanying notes are an integral part of these financial statements

Agricultural Credit Corporation of Saskatchewan

Statement of Operations and Surplus

For the year ended March 31, 2003

(in thousands of dollars)

	2003	2002
Interest and dividend income (Note 9)		
Loans	5,390	7,130
Sinking fund and short-term investments	-	379
Other interest	14	7
	5,404	7,516
Interest expense		
Long-term debt	2,885	7,718
Surplus (deficit) before the following	2,519	(202)
Livestock Drought Loan Program interest subsidies (Note 10)	199	-
Loan loss recoveries	(3,449)	(9,651)
Counselling and Assistance For Farmers recoveries (Note 4f)	(290)	(483)
Grants (Schedule 1)	-	(625)
Unexpended grants (Schedule 1)	-	423
Surplus for the year	6,059	10,134
Surplus - beginning of year	10,639	505
	16,698	10,639
Transfer of net assets from Agri-Food Equity Fund (Note 11)	2,168	-
Surplus - end of year	18,866	10,639

The accompanying notes are an integral part of these financial statements

Agricultural Credit Corporation of Saskatchewan

Statement of Cash Flows

For the year ended March 31, 2003

(in thousands of dollars)

2003 2002

Cash provided by (used for) the following activities

Operating

Surplus for the year	6,059	10,134
Less sinking fund interest	-	(254)
Items not affecting cash		
Loan loss recovery	(3,449)	(9,651)
Changes in working capital other than cash (Note 13)	1,780	5,238
Loan payments received	11,153	11,738
	15,543	17,205

Financing

Repayments of long-term debt	(20,434)	(33,000)
Cash transferred from Agri-Food Equity Fund (Note 11)	3,465	-
Retirement of sinking fund	-	7,116
Sinking fund interest	-	254
Proceeds from notes payable	4,700	5,400
	(12,269)	(20,230)

Increase (decrease) in cash	3,274	(3,025)
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Cash and short-term investments, beginning of year	191	3,216
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Cash and short-term investments, end of year	3,465	191
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Agricultural Credit Corporation of Saskatchewan

Notes to the Financial Statements

For the year ended March 31, 2003

1 Status of Corporation

The Agricultural Credit Corporation of Saskatchewan (ACS) is a Corporation that acts as an agent of the Government of Saskatchewan and has provided financial assistance to encourage and promote the development and expansion of the agricultural industry in the Province. On March 28, 1996, the Government of Saskatchewan announced that the ACS portfolio would be wound down. All ACS employees were transferred to Saskatchewan Agriculture, Food and Rural Revitalization (SAFRR); however, ACS still is responsible for collection of the loan funds, monitoring loan collectibility and retirement of their debt.

2 Significant Accounting Policies

- a) Under Section 29 of The Agricultural Credit Corporation of Saskatchewan Act, the Minister of Agriculture, Food and Rural Revitalization may make grants to the Corporation out of monies appropriated by the Legislature. Grants may be provided for the payment of administration costs, for the payment of interest on funds borrowed, to defray losses on loans not repaid and for other purposes that may be determined by the Minister. Grant funds received for the fiscal year are for specific purposes. Any excess funds received for the fiscal year and not expended on each specific purpose are reported on the Balance Sheet as unexpended grants repayable.

New expenditures incurred in a fiscal year which exceed the grant provided for that purpose are reported as a deficit for the year and may be recovered from the grant to be received for that purpose in a subsequent year.

Commencing with the 2002 year end the Corporation does not expect to receive grants to fund its operations.

- b) Amounts recovered from customers for capital grants paid to them in prior years and amounts recovered for guarantees paid under discontinued programs are retained by the Corporation and are reported as surplus.
- c) Discounts and expenses relating to the issuance of debt are amortized on a straight-line basis over the life of the debt and are included in interest expense on long-term debt.
- d) The Corporation records, as assets held for resale, the fair market value, at the date of acquisition, of assets acquired through settlement, quit claim or foreclosure. Fair market value is determined by the market value of the assets acquired. These asset values are adjusted annually for carrying costs and for the income or loss from any operations associated with the assets. The provision for losses represents management's estimate of possible losses on assets held for resale.
- e) Investments are accounted for at cost. A provision for investment loss is recorded representing management's estimate of likely losses based upon an individual review of the investments. It is possible that changes in future conditions in the near term could require a material change in the provision.

Agricultural Credit Corporation of Saskatchewan

Notes to the Financial Statements

For the year ended March 31, 2003

- f) An allowance for impaired loans is maintained that reduces the carrying value of loans to their estimated realizable amount. A loan is classified as impaired when there is no longer reasonable assurance that the principal and interest will be collected in full. The Corporation records general allowances when evidence of impairment within groups of loans exists but is not sufficient to allow identification of individual impaired loans. ACS estimates impairment using a formula based on its loss experience for similar groups of loans in similar economic circumstances. Management performs a net present value calculation on a sample of loans within the loan portfolio and extrapolates the results of the analysis to the entire loan portfolio population. Estimated realizable values are determined by discounting the expected future cash flows at the effective interest rate inherent in the loans. When the amounts and timing of future cash flows cannot be reliably established, estimated realizable values are determined by reference to market prices for the loans or their underlying security value. As management identifies individual impaired loans, it assigns a specific allowance to the loan and adjusts the general allowance accordingly.

3 Measurement Uncertainty

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the reported amounts of revenues and expenses during the year. The Corporation reviews its overall allowance for loan loss and this process is subject to significant management judgement. In addition, there is management judgement involved in estimating the fair value of assets held for resale. Due to uncertainties inherent in these estimation processes, it is possible that changes in the future conditions may cause recorded amounts to change by a material amount in the near term.

4 Loan Programs

a) Capital Loan Program

Loans are repayable over terms not exceeding 25 years and bear interest at rates between 5% and 13½%. Security on the loans varies and may include mortgages on real property, security agreements and guarantees.

b) Investment Loan Program

Investment loans bear interest at rates between 8½% and 10½% and are repayable over terms not exceeding 25 years. Security on the loans varies and may include mortgages on real property, security agreements and guarantees.

c) Production Loan Program

Production loans were disbursed in 1986 to provide farmers, bee colony owners, potato producers and greenhouse operators with loans bearing interest at 6%, repayable in equal principal instalments over a term of three years. Amounts in arrears are at prime plus 2%. Amendments to the program allowed the borrowers to reschedule their outstanding loans to mature in 1997. Subsequently, some loans were rewritten with longer terms to assist borrowers to repay their loans. These amended loans bear interest at an average rate of 9%.

The loans are secured by promissory notes, and where applicable, by guarantees and general security agreements.

Agricultural Credit Corporation of Saskatchewan

Notes to the Financial Statements

For the year ended March 31, 2003

d) Livestock Cash Advance Program

Effective August 1, 1993, customers with livestock cash advances began repaying the loans, bearing interest at the bank prime rate plus 2% over a maximum five year period. Subsequently, some loans were rewritten with longer terms to assist borrowers to repay their loans. These amended loans bear interest at an average rate of 9%.

The loans are secured by promissory notes, and where applicable, by guarantees.

e) Spring Seeding Loan Program

During the 1992 fiscal year, the Corporation paid out \$48.6 million to honour guarantees on loans granted by financial institutions under the Spring Seeding Loan Program. The loans bear interest at prime plus 2%.

The loans are secured by promissory notes and, where applicable, by guarantees and general security agreements.

f) Counselling and Assistance For Farmers Program

Effective August 1, 1992, ACS assumed responsibility for loans and guarantees which were outstanding under the Counselling and Assistance For Farmers Program. New guarantees were not issued under this program by the Corporation. The existing guarantees had been renewed until March 31, 1995, at which time the program was terminated.

The majority of the loans under this program are in default, had judgements obtained on them and bear interest at 5%.

The loans are secured by way of an assignment of security from the original lender.

g) Other loans

The Corporation is continuing collection of cash advances made to cattle producers up to March 31, 1980, under Part VI, VII, VIII of the Regulations under The Agricultural Incentives Act.

The loans are secured by promissory notes.

Agricultural Credit Corporation of Saskatchewan

Notes to the Financial Statements

For the year ended March 31, 2003

5 Loans Receivable

	2003			2002		
	Gross	Allowance	Net	Gross	Allowance	Net
	(in thousands of dollars)			(in thousands of dollars)		
Capital Loans	51,459	15,570	35,889	63,967	20,961	43,006
Investment Loans	352	69	283	367	80	287
Production Loans	1,438	841	597	1,781	981	800
Livestock Cash Advances	581	354	227	988	562	426
Spring Seeding Loans	13	4	9	24	10	14
Counselling and Assistance For Farmers Loans	1,100	1,100	-	1,349	1,349	-
	54,943	17,938	37,005	68,476	23,943	44,533

During the year, a number of the Corporation's customers refinanced their Production Loans, Livestock Cash Advances, Spring Seeding Loans and Counselling and Assistance For Farmers loans under the Capital Loan Program.

6 Investments

	2003	2002
	(in thousands of dollars)	
Loans and debentures	7,072	-
Common shares	10,250	-
Preferred shares	5,575	-
	22,897	-
Less: provision for investment loss	(13,962)	-
	8,935	-

Investments include interest bearing instruments at rates ranging 6% to 15% with maturities extending to the year 2007. Loans and debentures also include \$3.71 million in participating debentures. The profitability of the investee determines the repayment of principal and interest on the participating debenture.

Agricultural Credit Corporation of Saskatchewan

Notes to the Financial Statements

For the year ended March 31, 2003

7 Assets Held For Resale

	2003	2002
	(in thousands of dollars)	
Cost	8,905	10,271
Allowance for losses	(2,853)	(3,097)
	<u>6,052</u>	<u>7,174</u>

8 Borrowing

Sections 17 and 19 of *The Agricultural Credit Corporation of Saskatchewan Act* allows the Corporation to borrow, with the approval of the Lieutenant Governor in Council, monies from various sources as it deems necessary for its purposes. Section 22 restricts total borrowing by the Corporation to \$2,000,000,000.

a) Long-term debt

All long-term debt is repayable to the Province of Saskatchewan General Revenue Fund. Interest is payable semi-annually with principal due at maturity on the debenture. Other loans payable are non-interest bearing with no repayment terms.

The weighted average interest rates of this debt follows:

Year of Maturity	2003		2002	
	Amount due (in thousands of dollars)	Weighted average interest rate	Amount due (in thousands of dollars)	Weighted average interest rate
Debentures				
2003	-	-	20,434	15.89%
2004	13,517	11.59%	13,517	11.59%
	13,517	11.59%	33,951	14.2%
Other	10,250	-	-	-
Total	<u>23,767</u>	11.59%	<u>33,951</u>	14.2%

Agricultural Credit Corporation of Saskatchewan

Notes to the Financial Statements

For the year ended March 31, 2003

b) Notes payable

	<u>2003</u>	<u>2002</u>
	(in thousands of dollars)	
Notes payable	10,100	5,400

All notes payable are repayable to the Province of Saskatchewan General Revenue Fund.

Notes payable are due to the Province of Saskatchewan General Revenue Fund within 90 days.
Interest is charged at 3.19%.

9 Interest and Dividend Income

	<u>2003</u>	<u>2002</u>
	(in thousands of dollars)	
Loans	5,222	6,761
Interest recovery on impaired loans	168	369
Investments	12	-
Other interest	2	7
Short-term investments	-	125
Sinking fund investments	-	254
	<u>5,404</u>	<u>7,516</u>

10 Commitments

Guaranteed loans under The Agricultural Credit Corporation of Saskatchewan Act

a) Guaranteed Vendor Mortgage

Guarantees may be provided by the Corporation to vendors under the Guaranteed Vendor Mortgage program for the sale of farm land and existing improvements. The guarantees are for 100% of the principal amount outstanding. The contingent liability of the Corporation for guaranteed vendor mortgages outstanding at March 31, 2003, is \$342,989 (2002 - \$391,800).

b) Livestock Drought Loan Program (LDLP)

During the year, the Livestock Drought Loan Program was enacted under The Agricultural Credit Corporation of Saskatchewan Act in response to the severe drought experienced throughout the province. The loans were made through financial institutions and are 100% guaranteed by ACS. The contingent liability of the Corporation under this program at March 31, 2003, is \$11,508,170. The Corporation has recorded a provision of \$1,800,000 to fund management's estimate of losses on loans as a result of the anticipated guarantee payments under the program. In addition, the first year's interest on the loans will be paid in the form of a grant directly to the lender on behalf of the participant. All loans are to be fully repaid over the next four years.

Agricultural Credit Corporation of Saskatchewan

Notes to the Financial Statements

For the year ended March 31, 2003

11 Agri-Food Equity Fund Transfer

During the year, the assets and liabilities of the Agri-Food Equity Fund (AFEF) were transferred from Saskatchewan Agriculture, Food and Rural Revitalization to ACS and AFEF was subsequently wound up. The transfer was proclaimed on Friday, February 28, 2003 at their net book value.

	(in thousands of dollars)
Cash	3,465
Accounts receivable	15
Investments, net of allowance	8,938
	<u>12,418</u>
Loans payable	10,250
Accumulated Surplus	2,168
	<u>12,418</u>

12 Related Party Transactions

Included in these financial statements are transactions with various Saskatchewan crown-controlled departments, agencies and corporations with which the Corporation is related. Account balances from these transactions are included in the balance sheet and are settled on normal trade terms. Other transactions and amounts due to and from related parties and the terms of settlement are described in the financial statements and notes thereto.

At March 31, 2003, the Corporation owes \$761,850 (2002 - \$1,411,675) (included with interest and other accrued payables) to the Province of Saskatchewan General Revenue Fund for interest on long-term debt.

During the year, the Corporation was responsible for collection of inactive accounts on behalf of Saskatchewan Crop Insurance Corporation (SCIC) and Lands Branch. For these services, a commission of \$41,045 (2002 - \$54,892) was received from SCIC and paid back to Province of Saskatchewan General Revenue Fund.

All administration expenses for the Corporation are paid for by SAFRR. These costs amounted to approximately \$1,645,000 (2002 - \$1,537,000).

Agricultural Credit Corporation of Saskatchewan

Notes to the Financial Statements

For the year ended March 31, 2003

13 Change in Working Capital Other Than Cash

	2003	2002
	(in thousands of dollars)	
Decrease in accrued interest on loans receivable	1,020	3,341
Decrease in accrued interest on debt payable	(520)	(942)
Decrease in assets held for resale	1,622	2,493
(Increase) decrease in accounts receivable	(32)	290
(Decrease) increase in unexpended grant repayable	(423)	169
Decrease in other operating activities	113	(113)
	1,780	5,238

14 Financial Instruments

Fair Values

Estimated fair value approximates amounts at which financial instruments could be exchanged in an arm's length transaction between willing parties who are under no compulsion to act. Many of the Corporation's financial instruments lack an available trading market, so fair values are based on estimates using present value techniques which are affected by assumptions concerning the timing of future cash flows and discount rates. These estimates are subjective in nature and involve uncertainties and matters of significant judgement and, therefore, cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

The Corporation has determined the fair value of its financial instruments as follows:

- a) Cash, short-term investments, accounts receivable, interest and other accrued payables:

The carrying amount on the balance sheet approximates fair value because of the short-term nature of these instruments.

- b) Loans receivable:

Fair value was not established for the loan portfolio due to there being no established market for the developmental loans made by the Corporation. With no available market information and the diverse nature of the loan portfolio it was not deemed practicable to determine the fair value with sufficient reliability.

Agricultural Credit Corporation of Saskatchewan

Notes to the Financial Statements

For the year ended March 31, 2003

c) Notes payable and debentures payable:

The estimated fair values for all long-term debt obligations are estimated using discounted cash flow analysis based on current incremental borrowing rates for similar borrowing arrangements. The estimated fair values of these financial instruments may not represent the amounts that could be realized upon settlement.

The estimated fair values of the Corporation's debt instruments are as follows:

	<u>2003</u>		<u>2002</u>	
	Carrying amount (in thousands of dollars)	Estimated fair value	Carrying amount (in thousands of dollars)	Estimated fair value
Notes payable	10,100	10,100	5,400	5,400
Debentures payable	13,517	14,097	33,951	37,243

Credit Risk Management

Credit risk arises from potential for borrowers to default on their contractual loan obligations. Credit exposure on the Corporation's loan portfolio is managed through appropriate due diligence and account administration. To minimize the credit risk associated with the loans the Corporation requires security agreements and personal guarantees on all loans.

Interest Rate Risk Management

The Corporation controls interest rate risk by managing the interest charged on the loan portfolio against the interest cost incurred on the borrowings from the Province of Saskatchewan General Revenue Fund.

15 Comparative Figures

Certain of the prior year's comparative figures have been reclassified to conform to the current year's presentation.

Agricultural Credit Corporation of Saskatchewan
Schedule 1 – Grants from Province of Saskatchewan – Saskatchewan
Agriculture, Food and Rural Revitalization
For the year ended March 31, 2003

As described in Note 2a, the following table summarizes grant activity for the year ended March 31, 2003.

	2003	2002
	(in thousands of dollars)	
Appropriation approved	-	2,000
Appropriation not required	-	(1,300)
Appropriation repaid	-	(75)
Grant proceeds available	-	625
Expenditures		
Administration	-	-
Interest	-	7,718
Provision for losses	-	-
Less		
Interest income	-	(7,516)
Other income	-	-
	-	202
Unexpended grants repayable	-	423



**Government of
Saskatchewan**

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